FISCAL NOTE FOR NON-CAPITAL PROJECTS

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Legislation Title:
A RESOLUTION relating to the Seattle City Employees' Retirement System; amending Resolution 31334 as amended by Resolution 31474; establishing the Council's intent to fund the Seattle City Employees' Retirement System (SCERS) in accordance with the January 1, 2014 Actuarial Study.

Summary of the Legislation:
Resolution 31334, adopted in November 2011 and amended in August 2013 by Resolution 31474, declared the City's commitment to fully fund SCERS in accordance with a sound actuarial framework. The framework is endorsed by SCERS' actuaries, and is analogous to that which is described for State pension plans in RCW 41.45.035.

The proposed amendment updates the contribution rate to be used in the 2015 budget to reflect the results of January 1, 2014 Actuarial Valuation. The total rate is set to 25.76% of payroll, an increase of 1.42% from the current rate. Of the total, 10.03% will continue to come from employee contributions. The City will bear the increase in the rate, with its contribution increasing to 15.73% of payroll.

The increase in the 2015 rate is primarily caused by a decrease in the assumed long-term rate of return for the pension fund from 7.75% to 7.50%. This change was a recommendation from the 2010-2013 experience study conducted by Milliman, SCERS' actuary, and was consistent with the analysis of NEPC, SCERS' investment consultant. The investment assumption and the other main assumptions used in the January 1, 2014 actuarial valuation are listed in the resolution.

Background:
As of January 1, 2014, SCERS' unfunded liability is estimated at an actuarial present value of $1.17 billion, largely due to investment losses in 2008, which affected pension plans nationally. Since then, the City has steadily increased its pension contributions to address the shortfall, from a level of 16.06% of covered payroll to 24.34% of payroll in the current year. With Resolution 31334, the City committed to amortizing the unfunded liability over a 30 year period. This 30 year period was fixed in in 2013 through Resolution 31474, making 2042 the year in which the unfunded liability is eliminated (assuming that the assumptions of the actuarial study hold through the period).

Please check one of the following:

____ This legislation does not have any financial implications.

(Please skip to "Other Implications" section at the end of the document and answer questions a-h. Earlier sections that are left blank should be deleted. Please delete the instructions provided in parentheses at the end of each question.)

_X_ This legislation has financial implications.
(If the legislation has direct fiscal impacts (e.g., appropriations, revenue, positions), fill out the relevant sections below. If the financial implications are indirect or longer-term, describe them in narrative in the "Other Implications" Section. Please delete the instructions provided in parentheses at the end of each title and question.)

The resolution has only indirect financial implications.

Other Implications:

a) **Does the legislation have indirect financial implications, or long-term implications?**
All other things being equal, contribution rates would be expected to follow the path specified in the January 1, 2014 Actuarial Valuation for the next 28 years:

Year	Contribution Rate as a % of Covered (Non-Overtime) Payroll
2014	24.34%
2015	25.76%
2016	25.31%
2017	25.10%
2018	24.55%
2019	24.40%
2020 and after	24.08%

SOURCE: Milliman January 1, 2014 Actuarial Valuation, p. 3
Note: Rate changes in the first 5 years of the amortization are due to asset smoothing.

b) **What is the financial cost of not implementing the legislation?**
If the City does not properly fund the pension system in the upcoming year, the cost of funding the system in the future will increase.

c) **Does this legislation affect any departments besides the originating department?**
Yes, this resolution affects the pension contribution rates paid by all City departments with SCERS members, including the utilities.

d) **What are the possible alternatives to the legislation that could achieve the same or similar objectives?**
A variety of other changes to SCERS' actuarial assumptions and amortization policies could achieve the same or additional benefits, with similar or higher future budget impacts. The SCERS Board evaluates these assumptions when it commissions the annual valuation study, although the framework for the assumptions is established with an Experience Study that is undertaken every three years, the most recent study being completed in 2014. In addition, the City and SCERS expect that various actuarial societies, bond rating agencies, and government finance standards bodies will be revisiting their guidance for pension funding in the coming years.

e) **Is a public hearing required for this legislation?**

No

f) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?
No

g) Does this legislation affect a piece of property?
No

h) Other Issues:
None

List attachments to the fiscal note below:
No attachments